

Function 600: Income Security

Function 600 consists of a range of income security programs that provide cash or near-cash assistance (e.g., housing, food, and energy assistance) to low-income persons, and benefits to certain retirees, persons with disabilities, and the unemployed. Housing assistance programs account for the largest share of discretionary funding in this function. Major federal entitlement programs in this function include unemployment insurance, food stamps, Temporary Assistance to Needy Families (TANF), child care, and Supplemental Security Income (SSI). The function also includes spending associated with the refundable portions of the Earned Income Tax Credit (EITC) and Child Credit. Federal and other retirement and disability programs, which make up approximately 30 percent of funds in this function, are discussed here and in *Function 950 (Undistributed Offsetting Receipts)*.

For 2007, the President's budget provides \$311.7 billion for the mandatory programs in Function 600, an increase of \$14 million from the amount of spending projected under current law. Over five years, mandatory spending decreases by a total of \$21.3 billion relative to current-law projections. This decrease is largely a result of provisions affecting the Pension Benefit Guaranty Corporation, described in further detail below.

For Function 600 discretionary programs, the budget provides \$47.8 billion for 2007, which is \$771 billion, or 1.6 percent, above the 2006 enacted level as estimated by the Office of Management and Budget (OMB).

Nutrition Assistance

Eliminates Commodity Supplemental Food Program — The budget eliminates funding for the Commodity Supplemental Food Program. This program provides nutrient-rich food packages for low-income women, infants, and children as well as low-income persons age 60 and older. The food packages are designed to address typical nutrient deficiencies in the diet of the program's target population. The program is funded at \$111 million for 2006 and serves roughly 420,000 elderly and 50,000 mothers and children each month.

Changes Eligibility Rules for Food Stamps — The budget includes two provisions affecting food stamp eligibility. One provision cuts food stamp spending by \$656 million over five years relative to current law by making it more difficult for certain low-income families receiving TANF non-cash assistance to qualify for food stamps. Roughly 225,000 people will lose food stamps under this provision. In addition, 40,000 children who lose food stamps will also lose access to free school lunches, thereby cutting child nutrition spending by \$50 million over five years. A similar provision passed the House as part of the 2005 Republican spending cut reconciliation bill, but it was rejected by the Senate and ultimately dropped from the conference report. Another provision in the budget increases food stamp spending by \$589 million over five years by exempting tax-

avored retirement savings accounts from being counted as resources when determining eligibility for food stamps. The budget also includes a provision to allow states to use the National Directory of New Hires to verify Food Stamp participants' employment and wage information, reducing spending by \$1 million a year.

Caps Administrative Funding for Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) — The budget includes \$5.2 billion for 2007 for WIC, an increase of \$27 million above the 2006 enacted level. The Administration estimates that this funding level, accompanied by a policy of capping funding for nutrition services and WIC administrative costs at 25 percent of total funding (saving \$152 million), is sufficient to serve 8.2 million individuals, about the same service level as 2006. However, it is unclear whether this funding level will be sufficient to serve all eligible applicants. The budget also requires states to match 20 percent of nutrition services and administration funding starting in 2008.

Freezes Emergency Food and Shelter — The Federal Emergency Management Agency's Emergency Food and Shelter program provides grants to local nonprofit organizations to supplement their programs for emergency food and shelter. The budget freezes funding for this program at the 2006 enacted level of \$151 million.

Housing Assistance

The budget includes \$31.5 billion for discretionary housing assistance programs. This amount is \$743 million above the 2006 enacted level as estimated by OMB, and it is \$2.0 billion, or 5.9 percent, below the amount necessary to maintain purchasing power at the 2006 level. The budget total reflects a \$2.0 billion recapture of unused prior-year funding in the Housing Certificate Fund. Within this total, the President's budget increases funding for some programs and reduces or eliminates others. For information on housing credit programs, see *Function 370 (Commerce and Housing Credit)*.

Cuts Funding for U.S. Department of Agriculture (USDA) Rental Assistance Program — The budget provides \$486 million for the rural rental assistance program – a cut of \$161 million, or 24.9 percent, below the 2006 enacted level. The budget amount reflects a shift from four-year contracts to two-year contracts. Rural rental assistance payments bridge the gap between what low-income tenants of USDA housing projects are expected to pay for rent – 30 percent of their income – and the operating costs of the projects where they reside.

Continues Shifting Housing Voucher Program Toward a Block Grant — The budget provides \$15.9 billion for tenant-based rental assistance, which provides about two million low-income individuals and families with rental vouchers they can use to obtain affordable housing on the private market. The budget amount is \$502 million above the 2006 enacted level.

Traditionally, the budget for housing rental vouchers was based on the cost of maintaining the number of families served, plus any incremental costs if Congress chose to increase the number of vouchers available and therefore increase the number of families served. (Only about one out of four eligible families now receives this type of federal housing assistance; most local housing authorities have long waiting lists for housing vouchers.) The President's budget continues a shift begun in 2004 away from this "unit-based" budgeting approach to a "dollar-based" approach, which means that local public housing authorities will receive a dollar amount that may bear no relation to the actual costs of serving families. The budget also promises local housing authorities "greater flexibility" to meet local housing objectives. If funding does not keep up with costs, local housing authorities will face a choice between serving fewer families or reducing the value of the vouchers, effectively making housing unaffordable for more low-income families, elderly, and persons with disabilities.

Rescinds Funding for HOPE VI Rehabilitation of Distressed Public Housing — The budget rescinds the \$99 million provided for the HOPE VI program for 2006 and proposes no new funding for 2007. HOPE VI has successfully transformed severely distressed public housing projects into vibrant mixed-income neighborhoods. This program's funding has declined steeply since 2003, when it received \$570 million.

Cuts Public Housing Capital Fund by More Than One-Tenth — The budget provides \$2.2 billion to local public housing authorities for capital repairs and improvements to their housing stock. This amount is \$261 million, or 10.7 percent, below the 2006 level. The capital fund was funded at \$3.0 billion for 2001 and has received steadily less each year since then.

Freezes Public Housing Operating Fund — The budget freezes funding for the public housing operating fund at the 2006 enacted level of \$3.6 billion. Local public housing authorities use the operating fund to cover operating costs not covered by rental income. When funding falls short of operating costs, local housing authorities often have no alternative but to let some units sit empty, thereby decreasing the supply of affordable housing available to low-income families.

Cuts Housing for the Disabled and Elderly — The budget provides \$119 million for a program that provides supportive housing and other housing assistance for persons with disabilities, 49.8 percent less than the amount enacted for 2006. The budget also provides \$546 million for a similar housing program for the elderly, a cut of \$189 million, or 25.7 percent, from the 2006 level.

Zeroes Out Rural Housing and Economic Development — The budget eliminates this \$17 million program, which encourages new and innovative approaches to serve the housing and economic development needs of rural populations through grants to local community-based organizations. The budget consolidates Rural Housing and Economic Development into the Community Development Block Grant program, which also receives a funding cut. (See *Function*

450: Community and Regional Development for more information about the Community Development Block Grant.)

Increases Funding for Homeless Assistance — The budget provides \$1.5 billion for Homeless Assistance Grants, an increase of \$209 million above the 2006 enacted level.

Increases Funding for HOME Investment Partnerships — The budget provides \$1.9 billion for expanding the supply and affordability of housing through construction, acquisition, and rehabilitation, as well as providing rental assistance to tenants. This amount is \$160 million above the 2006 enacted level. The budget also includes a separate \$45 million for housing counseling services for homebuyers, homeowners, renters, and homeless individuals in subjects such as financial management and rental counseling. Housing counseling is currently funded through a set-aside in the HOME appropriation.

Increases Funding for Project-Based Rental Assistance — The budget provides \$5.7 billion for project-based rental subsidy contracts and related activities, an increase of \$639 million above the 2006 level.

Welfare and Related Family Support Programs

Many provisions of the landmark Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA) were set to expire at the end of 2002. PRWORA replaced the former federal welfare entitlement program with flexible TANF block grants, increased child care funding, improved child support collection, and reduced funding for the Title XX Social Services Block Grant. After three years of short-term extensions, Congress reauthorized the welfare law in January as part of the Republican spending cut reconciliation bill. The reauthorization froze the basic TANF block grant and required states to increase significantly the number of TANF recipients who are working. CBO estimates that complying with the new work requirements will increase states' costs for child care and work activities by \$8.4 billion over five years. However, the reauthorization increased child care funding by only \$1.0 billion over five years – not enough to keep pace with inflation, let alone address the new costs created by the legislation.

Increases Funding for Marriage Promotion Programs — The budget provides \$100 million a year in new funding through the TANF program for grants to states to promote healthy marriages and reduce out-of-wedlock births. This new funding comes on top of the \$150 million a year provided in the reconciliation spending cut bill to promote healthy marriages and responsible fatherhood.

Extends TANF Supplemental Grants — The budget extends TANF supplemental grants for population increases through 2010. These grants, funded at \$319 million a year, were extended through 2008 in the reconciliation spending cut bill.

Freezes Child Care Funding — Funding for the Child Care and Development Fund was frozen from 2002 through 2005 at \$4.8 billion, providing \$2.1 billion in appropriations for the Child Care and Development Block Grant, and \$2.7 billion in mandatory child care funding to the states. Total funding for 2006 came to \$5.0 billion as a result of the \$200 million annual increase in mandatory funding provided in the reconciliation bill. Even this increase was not sufficient to reverse the erosion in purchasing power that had occurred between 2002 and 2005. The President’s budget freezes child care funding for 2007 at the 2006 level, with no allowance for inflation. Total federal resources for child care also include TANF and Social Services Block Grant funds spent on child care at state discretion. Even considering these other funding sources, the number of children receiving child care assistance has declined since 2003, and the President’s budget projects that this decline will continue – from 2.1 children in 2006 to 1.8 children in 2011 (see accompanying table).

Children Receiving Federal Child Care Assistance, in millions									
<u>Actual</u>				<u>Budget Estimate</u>					
2002	2003	2004	2005	2006	2007	2008	2008	2010	2011
2.5	2.5	2.3	2.2	2.1	2.0	2.0	1.9	1.9	1.8

Cuts \$500 Million from Social Services Block Grant (Title XX) — The budget cuts the Social Services Block Grant (SSBG) by \$500 million for 2007, for a total funding level of \$1.2 billion. This grant provides states with broad discretion to use these funds for social services such as child care, child welfare, home-based services, employment services, adult protective services, prevention and intervention programs, and special services for the disabled. Funding for the Social Services Block Grant is included in *Function 500 (Education, Training, Employment, and Social Services)*. One of the Administration’s main justifications for cutting SSBG funding is that “the flexibility of the SSBG makes it difficult to measure performance.” Nevertheless, the 2007 budget moves numerous programs – such as rental assistance and foster care – in the direction of becoming flexible block grants.

Changes Funding Structure for Foster Care — The budget repeats a proposal put forth in previous Administration budgets to change the method of making payments to states for the \$4.7 billion foster care program. Funding for this entitlement program is traditionally based on estimates of numbers of eligible children and levels of assistance payments. The budget offers states the option of receiving foster care funds in the form of “flexible grants.” In exchange for agreeing to a fixed allocation of funding for five years, states are given considerably more administrative flexibility and discretion as to what activities can be funded. The new funding structure increases spending by \$22 million in 2007, but it is essentially budget neutral over five years.

Makes Changes to Child Support Enforcement — The federal government will spend \$3.3 billion in 2006 to help states establish and enforce child support orders. The 2007 budget includes several provisions to increase child support collections. These provisions include measures such as allowing federal seizure of accounts in multi-state financial institutions, intercepting gambling winnings, and giving states the ability to collect past-due child support by withholding a portion of Social Security payments from beneficiaries in some circumstances. Because the federal government receives a share of child support collections as an offset against spending, the child support provisions in the budget reduce federal spending by \$17 million over five years.

Extends Supplemental Security Income (SSI) Eligibility for Refugees — Under current law, refugees and asylees lose eligibility for SSI after seven years in the United States unless they become citizens. The budget allows refugees and asylees to receive SSI for eight years, but the policy sunsets after 2009. This proposal increases SSI spending by \$85 million over three years. This change also affects Medicaid spending. Medicaid effects are recorded in *Function 550 (Health)*.

Increases Total Funding for Low-Income Energy Assistance — The budget provides \$1.8 billion in appropriated funding for the Low-Income Home Energy Assistance Program (LIHEAP). The reconciliation spending cut bill provides \$1.0 billion of mandatory funding for 2007, resulting in a total funding level of \$2.8 billion, an increase of \$621 million from the 2006 enacted level (including contingency funding). However, this funding will not help families facing sharp increases in heating costs *this* winter as a result of recent increases in fuel prices. While LIHEAP funding for 2006 is slightly below the 2005 level, the number of households applying for energy assistance this year is expected to reach a 12-year high of 5.6 million – more than ten percent above last year’s level. About 35 percent of LIHEAP households include a member 60 years of age or older, and about half include a member with a disability.

Unemployment Insurance (UI)

The Unemployment Insurance program is financed through a combination of state and federal taxes. State taxes pay for regular unemployment insurance benefits. Federal taxes currently support federal and state unemployment administration and retraining services, the federal government’s share of extended benefits for workers out of work more than 26 weeks, and loans to states that are unable to pay benefits because they have run out of funds.

Includes Provisions to Reduce UI Overpayments — The budget includes a set of policy changes to increase states’ ability to detect and recover erroneous UI payments, which will reduce spending by \$1.7 billion over five years compared with current law. The new UI provisions include the following:

- Impose a penalty for UI fraud;
- Enlist private collection agencies in the recovery of overpayments;

- Charge employers when their actions lead to overpayments;
- Collect delinquent UI overpayments through garnishment of federal income tax refunds;
- Allow states to use a portion of recovered overpayments on activities to reduce fraud and error; and
- Increase accuracy of information in state and federal new hire directories so states can quickly stop unemployment benefit payments to people who have gone back to work.

Spending Associated with Tax Proposals

Cuts Tax Credits for Certain Low and Middle-Income Taxpayers — The budget changes the eligibility guidelines for the Earned Income Tax Credit (EITC) and the Child Tax Credit so that certain taxpayers no longer qualify for these benefits. The change will reduce spending on the refundable portion of the Child Tax Credit by \$3.9 billion over ten years, and it will reduce spending on the refundable portion of the EITC by \$903 million over ten years. For more information on the tax policies in the President’s budget, see the *Taxes* chapter.

General and Federal Retirement and Disability

Federal Employees’ Pay Raise —The budget increases federal civilian pay rates by 2.2 percent in January 2007, the same pay raise as for military personnel.

Mandatory

Pension Benefit Guaranty Corporation — The budget again includes pension reforms. The budget protects the long-term solvency of the PBGC and reforms single-employers pension plans. The budget reforms funding rules to fully pay for pension plans, and adjusts both the variable and flat rate premiums to reflect the real risks and costs of benefits, and requires that plans provide timely information on their funding status to workers, investors and regulators to ensure greater accountability. The budget will increase flat-rate premiums currently used in single-employer pension plans from \$19 per participant to \$30 per participant and future increases will be indexed to wage growth. Variable rates would be reformed to reflect new funding targets, which will be determined based on expected claims. This proposal saves \$4.3 billion in 2007, \$18.7 billion over the 2007-2011 period, and \$47.4 billion over ten years.

Federal Employees Compensation Act — The budget includes reforms to strengthen program integrity and make benefits more equitable and easier to administer to Federal workers who sustain work-related injuries. The reforms include imposing an up-front waiting period for benefits, streamlining claims processing, and permitting the Department of Labor to recapture compensation costs from responsible third parties. This proposal saves \$140 million over the ten-year period (2007-2016).

Federal Retirement Improvement Act — The budget includes \$24 million over five years to implement the Retirement Systems Modernization (RSM) project to improve OPM's speed and accuracy of Federal retiree benefit payments. The project will convert millions of paper records into electronic records. As the project phases in, OPM hopes to be able to authorize new retirement benefits within five days and to improve the accuracy of pension computations, whereas it typically takes 80 to 93 days for the Office of Personnel Management to authorize retirement benefits.

Federal Employee Health Benefits Program Statute — The budget amends the Federal Employee Health Benefits program statute to identify options for increasing price competition among health plans offered to Federal employees and retirees through the Federal Employees Health Benefits program. This proposal saves \$3.4 million over the ten-year period (2007-2016).

Postal Service Reforms — The budget takes the pension savings that are provided to the Postal Service and would otherwise be held in escrow in 2007 and beyond, and uses them to fully fund its retiree health benefit liabilities.